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Group-Washington

July 24, 1995

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William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 95-60, RM-8448 - Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from $500 to $750*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their *"Comments"* in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

S. L. Herauf /DJS

Enclosure

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from $500 to $750	CC Docket No. 95-60 RM 8448 DOCKET FILE COPY ORIGINAL

COMMENTS OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell respectfully comment on the Notice of Proposed Rulemaking (NPRM) in the above-captioned proceeding. The Commission proposes to raise the limit for expensing certain equipment from $500 to $750. The NPRM also asks if carriers should be permitted to amortize the undepreciated, embedded assets under the newly adopted expense limit and over what period of time.[1]

This rulemaking results from a Petition by the United States Telephone Association (USTA) requesting that the Commission increase the

[1] Revision to Amend Part 32 Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from $500 to $700, CC Docket No. 95-60, RM 8448, Notice of Proposed Rulemaking, released May 31, 1995, (NPRM).

current expense limit of $500 for certain equipment to $2000.[2] The Commission, however, is only willing to raise the expense limit to $750. Unfortunately, an increase of that small amount is not worth implementing. The purpose of increasing the expense limit is to reduce the number of capital items that must be tracked. Raising the expense limit by $250 to $750 will only minimally reduce the administrative costs associated with record-keeping. In fact, adopting an expense limit of $750 would actually waste resources in that it would cost more to change our systems to accommodate the small increase than we would save in reduced tracking expense.

The Commission's decision to permit only this small increase is arbitrary and unreasonable. The proposed amount is primarily arrived at as an adjustment for inflation.[3] The Commission explains that $135 of its proposed expense limit increase would account for inflation since its last expense limit increase. While we agree that inflation is a factor that supports an increase in the expense limits, the Commission should recognize that competition and changes in technology are more important factors to consider. Unfortunately, the Commission only permits an additional $115 increase in the expense limit for these factors and as a hedge against inflation for the next five years. In other words, $115 is to take care of 7

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[2] The assets which would be subject to increased expense limits are in the accounts for motor vehicles, aircraft, special purpose vehicles, garage work equipment, other work equipment, furniture, office equipment and general purpose computers. NPRM, para. 1, n. 1.

[3] NPRM, para. 9.

years of past technology changes and increased competition, 5 years of future technology changes and increased competition, and 5 years of future inflation. That analysis is arbitrary and capricious.

LECs must be able to operate efficiently in order to respond to increased competition. Increasing the expense limit to $2000 would permit LECs to eliminate substantial record keeping and administrative costs. But, increasing the expense limit by $250 cannot by any stretch of the imagination be sufficient for local exchange carriers (LECs) to reduce administrative costs in any meaningful way to respond to competition. That amount simply will not eliminate enough administrative expense to even be worth considering. In fact, the change will cost us more to implement than we will save. We will have to redo our property record and accounting systems to accommodate any change. The cost to redo those systems for an expense limit of $750 will far outstrip any potential savings resulting from having to track fewer capital items. The increased expense limit of $750 proposed by the Commission is pitifully inadequate and consequently, not a realistic response to USTA's Petition.

Moreover, the inconsequential increase being considered will guarantee that LECs will have to return to the Commission in the near future with yet another request for more expense limit relief. Given the rapid rate of increased competition and technology changes, it will not take seven years, as in the past, for the LECs to be back with another petition. If the Commission were to adopt a more realistic expense limit now, however, that would obviate the need for another petition in the near future as LECs find cost reduction to be more and more important. [4]

For the reasons provided above, we do not support the inadequate expense limit increase proposed by the Commission. If, however, the Commission adopts $750 as the expense limit, LECs should be given the option of keeping the current expense level (and avoid the cost of revising their systems) or electing the higher expense limit. In addition, we urge that the Commission adopt USTA's proposal to eliminate detailed continuing property records (CPRs) for certain support asset accounts.[5] In the place of CPRs, USTA proposes that LECs use a vintage amortization level (VAL) property record system. The VAL system, adopted by several states, has worked well and will accomplish the same goal as raising the expense limit to $2000 -- a significant reduction of administrative costs to permit LECs to meet competition. Adopting VAL would also eliminate any need to increase the expense limit. As discussed in our recently filed comments, adopting the

[4] The history of expense limit increases points to the need for increases approximately every seven years. With each increase, the Commission has seen fit to increase the then existing limit by at least 100%. NPRM, para. 4.

[5] Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets, DA 95-1027, rel. May 10, 1995. The support asset accounts covered by USTA's Petition include garage work equipment, other work equipment, furniture, office equipment and personal computers and peripheral equipment in the general all purpose computer account.

VAL system would also be consistent with state and federal initiatives to reduce unnecessary, burdensome government regulation.

Respectfully submitted,

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Date: July 24, 1995